



Medicaid deficit threatens bond rating

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By Louis Porter Vermont Press Bureau

MONTPELIER – Some state officials are worried that the deficit in Vermont's Medicaid budget, projected to reach \$80 million by 2006, could damage the state's bond rating if it is not addressed.

Vermont currently has the highest bond rating in New England. That rating, due in part to Vermont's low unemployment rate over the last 20 years and fairly well-stocked reserve funds, results in lower interest payments when the state borrows money.

But the companies that compile those ratings, including Moody's Investor Services and Standard and Poor's, are also taking note of the state's struggle to fund Medicaid. The state pays 40 percent of the cost of the program and the federal government pays the rest.

"Medicaid continues to be a spending pressure ... and, if left unaddressed, (will) have a cumulative deficit of approximately \$300 million by fiscal year 2009," according to a recent Standard and Poor's report.

State Treasurer Jeb Spaulding said he is worried that a solution to the Medicaid shortfall will be delayed if legislators wait for a comprehensive health care funding solution.

"It would certainly have an effect on the rating agencies' view of Vermont's financial situation" if the Medicaid deficit isn't addressed, Spaulding said. "They are aware of the situation we are in and are watching what we do."

Vermont is not alone in trying to find a new way to fund Medicaid, said Nicole Johnson, senior analyst with Moody's. Although no single factor would result in the company downgrading the state's rating, analysts will watch to see the fiscal impact of the problem, Johnson said.

The budgetary problems in Medicaid come from the federal government trying to cut back on how much it spends on the program and increased enrollment in Medicaid over recent years, Johnson said. And an aging population will continue to increase the program's costs as time goes on, she added.

"We expect that Medicaid will be one of the biggest pressure points" for state budgets, Johnson said.

James Reardon, who recently became the state's commissioner of finance and management, said the Medicaid deficit could have an impact on the state's bond rating, but probably not in the near future.

"It's manageable for the time being. We are being proactive in trying to resolve the Medicaid issue," he said. "I don't see that as an immediate threat."

Insuring the program's future and protecting the state's bond rating are two of the reasons Gov. James Douglas is pushing for his Medicaid plan to be accepted soon, press aide Jason Gibbs said.

"It could potentially have a very negative impact on the state's bond rating ... and also on the view that potential investors and employers have of Vermont as a place to do business," Gibbs said.

Members of the Douglas administration have been negotiating with the federal government for a so-called "global commitment" or block grant, which would ensure a set amount of federal funding for Medicaid over the next five years in exchange for flexibility in how the money is used.

In addition, the Douglas plan for Medicaid would include negotiating reimbursement rates with doctors and hospitals and higher insurance premiums for some.